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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 000666

SIPDIS

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SUBJECT: SUPERVISION AND COMPLIANCE IN GAZA BANK BRANCHES

Classified By: Consul General Jake Walles, for reasons 1.4(b) and (d).

¶1. (C) Summary: In a series of meetings in early April, Palestine Monetary Authority (PMA) and banking sector contacts outlined their supervision and compliance operations in Gaza bank branches. The PMA made a similar presentation to GOI officials at a Joint Economic Committee (JEC) meeting on April 7 in Jerusalem, and reported that both sides agreed to continue sharing information. End summary.

PMA and Bank of Palestine Detail Compliance Regime in Gaza

¶2. (C) In separate meetings with visiting USG officials and Econoffs in the first half of April, PMA Governor Jihad al-Wazir emphasized the PMA's ongoing ability to supervise all Palestinian bank branches in Gaza. Bank of Palestine (BoP) compliance officers in Gaza outlined their compliance regime to Econoffs via DVC on April 8. According to al-Wazir, the PMA has an operational staff of 96 people on the ground in Gaza. The BoP Deputy Regional Manager in Gaza said that he is in near-daily contact with the PMA in Gaza, and PMA supervisors visit BoP's Gaza branches regularly and conduct annual audits. (The BoP has the largest market share in Gaza and over 376,000 accounts in Gaza and in the West Bank.)

¶3. (C) BoP officers explained the BoP's due diligence procedures require verification of each customer's identity, source of income, and address, which often involves a visit to the applicant's home or place of business. The BoP reportedly declines about 200 new account applications per month in Gaza. The bank does not hold accounts for money changers or charities with the exception of UNICEF, according to BoP officials. BoP contacts told Econoffs that the BoP does not accept Euros, because they cannot confirm the Euros came from a legitimate source. (Only NIS, USD, and, occasionally, JD are transferred through the banking system via Israel.) They said NIS remain the primary currency for daily use in Gaza, while USD are for "savings."

¶4. (C) Al-Wazir stressed that GOI restrictions on cash shipments from the West Bank to Gaza have resulted in exchange rate arbitrage and benefited Hamas' black market money changers. He wondered aloud "why the IDF (insists on) funding Hamas." BoP officials confirmed that the NIS/USD black market exchange rate is between 5-7 points off the official rate.

¶5. (C) Al-Wazir confirmed that the PMA's Financial Follow-up Unit (FFU - equivalent of FIU) is up and running. He said the FFU has not collected a high number of Suspicious Activity Reports (SARs), and noted that banks often investigate suspicious activity and close accounts on their

own.

Palestine Islamic Bank

¶6. (C) As an example of PMA control over the Gaza banking sector, al-Wazir cites PMA actions against Palestine Islamic Bank (PIB). According to al-Wazir, the PMA uncovered a number of instances of irregular activity as a result of PIB's recent public offering to increase its capital. The PMA returned a USD 250,000 transfer from Damascus (routed through Jordan to Gaza) to purchase stock, and froze 15 transfers of USD 10,000 which all originated from the same branch in Gaza. The Capital Markets Authority (CMA) will investigate the public offering, and al-Wazir said he hopes to remove PIB's board and bring in new management.

¶7. (C) The PMA imposed significant penalties on the bank for violating PMA regulations, including approximately USD 250,000 in fines in 2008, according to al-Wazir. He also reported that, in April 2009, the PMA increased PIB's reserve requirement from 30 to 35 percent, also as a punitive measure.

¶8. (C) Al-Wazir confirmed that PIB has agreed to move its headquarters from Gaza to the West Bank. He noted that PIB's decision was not a result of PMA pressure; rather, PIB was compelled to move due to the recent decision of Israeli commercial banks to cease working with banks in Gaza.

Islamic National Bank (The " Hamas Bank ")

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¶9. (C) Al-Wazir cited the opening of the Islamic National Bank (INB) as proof of Hamas' inability to penetrate the formal banking sector in Gaza, and of the strength of the PMA's AML regime. Banking contacts report INB has rented an office and put up a sign, but is not yet operational. INB does not have any correspondent bank relationships, as no institution will accept its wires or checks, according to the PMA.

¶10. (C) In March, the PMA and the Capital Markets Authority (CMA) ran public notices on the front pages of a number of Palestinian and Jordanian dailies warning that the INB was not PMA-regulated. Al-Wazir said that he had heard that INB was unable to purchase an IT system in Jordan because the vendor had seen the PMA's public notice.

WALLES